Annual Report 2014

Lockmore Financial Services Ltd

ABN 41 106 113 599

Elmore **Community Bank**® Branch
Lockington **Community Bank**® Branch
Rochester **Community Bank**® Branch

Contents

Chairman's report

For year ending 30 June 2014

In our 11th year of operation I'm pleased to report that Lockmore Financial Services Ltd is in a strong financial position. Our business book grew to be $158 million at 30 June 2014. This is an increase of $15.5 million or 11% during the year.

Unfortunately, our income has not increased proportionately to this increase in our business book. This is the result of:

- low interest rates resulting in squeezed margins,
- Bendigo and Adelaide Bank's "Restoring the Balance" strategy to address the profit split anomalies resulting from the Global Financial Crisis (GFC),
- worldwide economic uncertainty, and
- the continued flow on effects of setting up the Rochester **Community Bank**® Branch.

This lack of significant increase in our income has been a source of frustration, annoyance and disappointment over the last 12 months. The banking sector has had a tough year and our company is one of the more fortunate, because our business book has and is continuing to grow.

In this environment, the Board has had to make some difficult financial decisions. One of these was the decision not to hold a formal grants program during the year (although we did make individual grants: refer below). Another decision was not to pay a dividend to shareholders. These decisions were not made lightly. Making these difficult decisions has helped ensure we made a $13,869 profit in 2013/14.

Returns to community

Even though we did not hold a formal grants program this year, Lockmore Financial Services Ltd has still returned $107,000 to the community in donations, sponsorships, and grants. Sponsorship has been given in a number of ways including: monetary contributions, promotional items, fee free use of the Community POS, use of marquees, etc. Organisations who have benefited this year have include:

Grants: ($48,944)

- OLSH Primary School, Elmore - Lights ($1,200)
- HV McKay Rural Discovery Centre - Solar Panels ($4,500) Elmore & District Doctors' Residence - External Painting ($5,000)
- Lockington & District Bush Nursing Centre - Rehabilitation Equipment ($3,280)
- Rochester 4Rs - Watch & Tell Projector & Screen ($6,986)
- Rochester SES - Crash Reponse project ($7,000)
- St Joseph's Primary School, Rochester - Kitchen Project ($10,978)
- Campaspe Valley Community Centre - Sound System ($10,000)

Sponsorships/donations

- Bamwm/Lockington United Cricket Club
- Campaspe Golf Club Tournament
- Dingee Ladies Night

Chairman's report (continued)

- Echuca - Community Respite and Living Services
- Elmore Bowls Club
- Elmore Ladies Sandgreen Golf Championship
- Elmore Field Days - Ag Art Competition
- Elmore Lions Club
- Elmore OLSH Art Exhibition
- Elmore Primary School
- Elmore WHAM Market
- Goornong Family Fun Day (fundraiser for Kristy Thomson appeal)
- Lockington Bush Nursing Centre - Community Car
- Nanneella Primary School
- Rochester Bowls Club
- Rochester Golf Club
- Rochester Kidzcapers
- Rochester Lawn Tennis Club
- Rochester Lions Club Convention
- Rochester Netball Club - Invitational
- Rochester RSL
- Rochester Tigers Cricket Club
- Rochester United Cricket Club
- Strathallan Bushdance
- Piggy Vouchers for School Banking in Elmore, Goornong, Lockington, Nanneella & Rochester

Scholarships ($12,000)

- Sporting Scholarship - Joe Atley (Football)
- Sporting Scholarship - Kelly Shotton (AFL Football)
- 2nd Year of Tertiary Studies Scholarship - Jason Smeaton
- 2nd Year of Tertiary Studies Scholarship - Chloe Macague

Strategic partnerships ($11,250)

Elmore Field Days including sponsorship of the prestigious Ag Art Competition

Goulburn Murray Cricket

Lockmore Financial Services Ltd chose to contribute to Bendigo and Adelaide Bank's collaborative **Bigger than a bank** marketing campaign that many of you will have seen recently on the television - particularly during the 2014 season of Masterchef, as well as on radio, etc. It is hope that the national coverage of this campaign will significantly boost Bendigo and Adelaide Bank's banking profile and consequently have direct benefits for our business.

Chairman's report (continued)

Lockmore Financial Services Ltd celebrated its 10th Birthday in August 2013 with an evening at the Elmore Memorial Hall. Approximately 100 guests joined the Board, staff and Bendigo and Adelaide Bank staff for an evening where we showcased local talent, celebrated 10 years of achievements and also awarded a number of community grants.

Two of our branches marked their 10th birthdays - Elmore (3 December) and Lockington (3 March) by celebrating with a community BBQs, cupcakes, balloons and piggy in each of the two towns.

The Directors

I'd like to thank Board members who have contributed to your **Community Bank**® company this year in a variety of ways including: attending meetings, training, State and National Conferences, functions, and community events as well as undertaking a variety of task from maintenance, speaking at events, and participating in sub-committees including: Human Resources, Marketing, Audit and Finance.

This year we had a few changes on the Board with Mathew Dennis and Christopher Giffin retiring. I thank Mathew for his contributions representing the Rochester community. Christopher had been involved with the Board for five years (initially on the Fuel Committee) and then as a Board member. I wish him well in his future endeavours but will miss his logical critiques and warm smile. Rob West (one of our Lockington Directors) resigned during the year due to increasing work commitments away from home. I also wish Rob the best and hope that he may look to renominate for the Board in the future if and when his circumstances change.

During the year our founding Company Secretary and original Steering Committee Member, Helen O'Sullivan, resign from the Board. Helen was passionate about the **Community Bank**® concept and the knowledge she had developed over the 10 years as Company Secretary was vast. Helen's contribution to this community company was well above and beyond that expected of her role and I sincerely thank her for all her hard work, her enthusiasm for community and her attention to detail that held us all in such good stead. I wish Helen all the very best in her future pursuits.

The Board has also gained two new members - Amanda Logie (Rochester) who was appointed at the 2013 AGM, and Brad Drust (Elmore) who joined the Board in April this year. Amanda and Brad both bring differing skill sets and I welcome them to their roles.

The Staff

I extend a big thank you to our team of dedicated staff who continue to be led by our Senior Branch Manager Tracie Kyne. Tracie and her team are the face of the business in the community. I commend them all for the commitment and dedication to Lockmore Financial Services Ltd and your **Community Bank**® branches. As our business continues to grow so does our level of staffing. We've seen a number of new faces this year with staff changes, and we've also been pleased to celebrate 10 years of service for two of our founding staff members - Helen McCaskie and Tanya Niven.

We are very fortunate to have a strong dynamic team who are able to assist our customers with a full range of financial services and products in Elmore, Lockington and Rochester. A special thank you goes to Tracie Kyne for her outstanding leadership, her ability to motivate and inspire others and her continued dedication and passion for the communities in which she live and works. It is rare to find a Manager who believes in her community and walks the walk as well as talking the talk!

I'd also like to thank Kristy Nihill who was our Marketing Development Manager who left us during the course of the year. Kristy worked for our company for a number of years and we are very grateful for all that she did to raise our profile and create a number of connections across our communities. Her work has resulted in many good partnerships and projects and she left a great foundation for us to build on. Kristy's enthusiasm for her job and passion for community were a great asset and I wish her well in her future endeavours.

Chairman's report (continued)

With several staff and Director resignations, the Board took the opportunity to have a much needed review of the company's administration requirements. These requirements have continued to grow and change over the years as our business has developed. The result of this was to employ an Administration/Marketing Manager who is also our Company Secretary. Allannah Jenkins has taken on this role and has been very busy over the last year familiarising herself with all the requirements of this position. She is the first point of contact for Marketing and share queries, and also responsible for our ASIC compliance reporting. Allannah works out of our administration office.

Project Horizon

Before I sign off, I would like to let you know about what is happening in the **Community Bank**® network across Australia which continues to evolve. This year saw the commencement of Project Horizon - a comprehensive review of the **Community Bank**® model. Bendigo and Adelaide Bank has provided the resources for this project and all **Community Bank**® branches, including Lockmore Financial Services Ltd, has and is participating in developing strategies for the future. There are four streams:

Examine: Where have we come from and where are we now, including what's worked and what hasn't.

The Future: What does it look like? Is it banking or more? What is best practice?

Effort & Reward: What has the GFC changed? Is the current model right? Should there be changes or multiple versions? What's fair, reasonable and equitable?

Transition/Roadmap: Once we've got a plan how do we implement it? How do we ensure we bring everyone along?

It will be interesting to see what comes out of this project and if there are any changes to the **Community Bank**® model as we know it now.

To our shareholders

I take this opportunity to thank all of our shareholders who have invested in their community by purchasing shares in Lockmore Financial Services Ltd, whether it be right back when we raised capital for Elmore and Lockington **Community Bank**® branches or more recently with our Rochester **Community Bank**® Branch campaign.

Your **Community Bank**® company aims to support shareholders with its profits (through dividends), and the community (through grants, donations and sponsorships). Getting the right balance between dividends to individuals and return of funds to community is always going to create some tension, particularly when shareholders have different views on the priority between these.

However, the primary reason that many shareholders, including myself, purchased shares in a **Community Bank**® company is investment in the local community. I know many people view the receipt of a financial return on those shares as "icing on the cake"! However, in times when finances are tight and everyone is keeping a close eye on all their investments, dividends can become more important.

The reality is that due to a changing economic climate, in some years it will be difficult for Lockmore Financial Services Ltd to fund both dividends and community projects. The Board has a duty of care to be fiscally responsible, and I know that all of your Directors take this responsibility very seriously.

I hope that you will bear with us through the good times and the not so good. Your Board is committed to ensuring the best outcomes for all our shareholders and our communities while maintaining a sustainable business that will endure though both the good and tough times.

Chairman's report (continued)

To our customers

I extend a very big "thank you" and commend you for choosing to bank with us and for making a difference in your community. The reality is the more customers we have, the more products each customer has, the more successful our business is. And the more successful our business is, the more profits we make which are then returned to the community through dividends for shareholders, and grants, sponsorships and donations for community groups.

To those who are not yet customers

Why not jump on board and start making a difference in your community just by banking with us? Everyone needs banking services and the **Community Bank**® model is one whereby everyone benefits.

Finally, I encourage you all to call into one of our branches in either Elmore, Lockington or Rochester and have a "financial health check"? are you accessing our full range of services, do you even know about them?

With your continued support, the Elmore, Lockington and Rochester **Community Bank**® branches will continue to grow, and our communities will continue to reap the rewards.

Louise Ross
Chairman

Manager's report

For year ending 30 June 2014

It is my pleasure as Senior Branch Manager to present the 2014 Annual Report for the Elmore, Lockington and Rochester **Community Bank**® branches.

Our three **Community Bank**® branches have continued to make steady progress over the past year and are now confident that we will make good profits going forward.

We've increased our business by another $15 million during the financial year with our total business now sitting at $158 million.

- Elmore $73.2 million
- Lockington $30.5 million
- Rochester $54.3 million

Given the population of our three areas, our total of 3,235 customers could certainly still increase. We have huge growth potential ahead and encourage our current customers to recommend us to others.

Lending has been an area of growth for our branches over the 12 months where our home loan products are very competitive and have been well received. We have a dedicated Business Banker, Wealth Consultant and Rural Bank Manager ready to service existing and new customers.

Our experienced staff continue to deliver excellent service that is much appreciated by our customer base and has enabled Bendigo and Adelaide Bank to receive high customer satisfaction ratings. We've said goodbye to Helen Barker, Debra Hildebrandt and Claire Hanna, although Claire will return from maternity leave shortly. We welcome to the team Fiona Cuttriss and Adrian O'Brien. Please call into the branches and welcome our new staff. They look incredible in their new uniforms and we've had many customers comment on how smart and professional they look. It is our ongoing commitment to return funds to the Elmore, Lockington and Rochester districts and their communities. Our team of staff are working towards unmatched customer service offering the full range of financial products and services. Happy and loyal customer who support us and refer us on helps create a successful company returning profits to these communities.

I extend my thanks and appreciation to our dedicated and committed staff and thank them for another busy but rewarding year. I believe we've come out the other side and will now enjoy some good profits to share and strengthen the small towns we work and live in.

I would also like to pass on my thanks to our Directors who are volunteers, providing their time and expertise to ensure the proficient smooth running of a public company. To the Chairman and Directors, the shareholders and customers that are advocates of our branches, your first hand accounts of the great service and products that are available at your **Community Bank**® branches, continues to assist us in growing our business and then returning profits to our communities.

And finally I wish to thank the shareholders who stuck with us from the beginning and to the loyal customers who trust us with their banking every day. With your support we've been able to return over $1 million over the past 11 years in the way of sponsorships, grants and dividends. An extraordinary figure and what a difference it has made to your communities. As shareholders, you are the key to the continued growth of our **Community Bank**® branches. Can we deepen our relationship with you? Please contact our friendly branch staff to discuss your financial and insurance needs.

Tracie Kyne
Branch Manager

Directors' report

For the financial year ended 30 June 2014

Your directors submit the financial statements of the company for the financial year ended 30 June 2014.

Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Louise Frances Ross
Company Chair
Occupation: Research Assistant
Many years working in community development and particularly neighbourhood house sector. Currently a Research Assistant with Flinders University SA. Has been involved in many community organisations often with executive positions from Lockington Heritage Complex, Lockington Swimming Pool, School Council, Lockington Community Care Committee, Lockington Development Committee. Director since 2003. Took over as Chairman at 2011 AGM.
Committees: Human Resource; Marketing
Interest in shares: 1,876

Corinne Gaye Holmberg
Company Treasurer
Occupation: Administrator
Retired business partner, held office administration positions in which financial book keeping was a responsibility. Has been actively involved in community organisations often holding executive positions. Director since 2003, Treasurer since 2006.
Committees: Finance, Audit
Interest in shares: 3,751

Graeme Trevor Wood
Director
Occupation: Farmer
Formerly involved in many community groups including president of the school council, office bearer APEX Club and currently Treasurer of Lockington Community Care Committee Inc. Director since 2003.
Committees: Marketing Chair; Buildings/Maintenance; Share Registry Officer.
Interest in shares: 626

Kathryn Carmel Taylor
Director
Occupation: Teacher
Secondary English Teacher, Bachelor of Education. Past President of Rochester Swimming Club, School Council member at Rochester Secondary College where she is also Literacy Manager. Own & run 'Taylor Made Cows' with husband Darren since 2002. Was a member of the Rochester Steering Committee and delighted to be a current director with Lockmore Financial Services Limited. Director since 2010.
Committees: Marketing, Human Resources, Vice Chair
Interest in shares: 1,000

Directors (continued)

Sandra Margaret Peacock
Director
Occupation: Business Owner
Small business owner and office manager. Currently involved in Rochester Market Committee Steering Committee and Rochester Community House. Assistant Secretary. Director since 2011.
Committees: Marketing & Human Resources
Interest in shares: 10,000

Christopher Bernard Dalton
Director
Occupation: Company Secretary
Chris has held a variety of financial reporting, governance, compliance and risk management roles. He is currently Corporate Secretary at Goulburn-Murray Water. Chris holds a Bachelor of Commerce and post graduate qualifications in economics, accounting, finance and corporate governance. He is a fellow of the Governance Institute of Australasia, Chartered Secretaries International, the Financial Services Institute of Australasia and CPA Australia. Director since 2012.
Committees: Finance, Audit, Governance
Interest in shares: Nil

Amanda Irene Logie
Director (Appointed 24 October 2013)
Occupation: Coordinator - Rochester Community House
Has previously worked in banking and in office administration. Currently Coordinator at Rochester Community House which puts her in a 'grass roots' position to assist with the development of her community. She has been on numerous committees including the Steering Committee for the Rochester **Community Bank**® , committee for Rochester (C4R), President of the Rochester Little Athletics Centre, member of Rochester Skate Park Steering Committee and is also President of the Regional Association of Neighbourhood and Community Houses.
Committees: Nil
Interest in shares: 2,000

Bradley Adrian Drust
Director (Appointed 7 April 2014)
Occupation: Executive Manager
Over ten years experience in natural resource management in technical and management roles. Currently Executive Manager at the North Central Catchment Management Authority, leading a program that delivers community, environmental and compliance projects. Bachelor of Arts (Geography)/Bachelor of Science (Environmental Science) and currently completing post graduate qualifications in Business Administration.
Committees: Finance
Interest in shares: Nil

Robert Michael West
Director (Resigned 5 May 2014)
Occupation: Product Manager
AusKick Co-Ordinator, Lieutenant Lockington CFA, School Council local primary school.
Committees: Policy Committee
Interest in shares: Nil

Directors (continued)

Helen Dianne O'Sullivan
Director (Resigned 24 October 2013)
Occupation: Teacher
Bachelor of Education (Primary). Has been actively involved in several community groups over the years including holding executive positions on committees. Company Secretary since 2003.
Committees: Nil
Interest in shares: 6,251

Christopher Thomas Giffin
Director (Retired 24 October 2013)
Occupation: Farmer
Involved with company for five years, initially with the Fuel Committee then as a Board member from October 2010. Has served on many local organisations, often holding executive positions. Has developed many business management skills through involvement with Lockmore, professional development with Bendigo Bank and experience in managing a farm.
Committees: Assistant Treasurer, Finance, Audit & Fuel
Interest in shares: 1,250

Mathew John Dennis
Director (Retired 24 October 2013)
Occupation: Facilities Manager
Management work covers building maintenance contracts, IT & capital works which recently involved the $21.7m development at REDHS. Has a passion for the local community with a focus on wellbeing and health. Was a member of the Rochester **Community Bank**® Steering Committee and likes to take on roles of leadership and is passionate about most things to which he turns his hand.
Committees: Buildings/Maintenance & Human Resource
Interest in shares: 1,000

Directors were in office for this entire year unless otherwise stated.

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary position was held by Director Helen O'Sullivan and non Director Allannah Jenkins. Helen O'Sulllivan was appointed to the position of secretary on 25 June 2003. Unfortunately Helen was forced to relinquish her role as Company Secretary in September 2013 due to reasons of ill health and resigned as Director on 24 October 2013.

The Board appointed Allannah Jenkins to the position of Company Secretary on 4th November 2013. Allannah was already employed as our Administration/Marketing Manager and now has Company Secretary added to her title.

Allannah Frances Jenkins
Company Secretary (non Director)
Occupation: Administration/Marketing/Company Secretary
Has many years experience in community development. Previously employed by family services as a worker and counsellor. Has worked closely in the rural sector in disaster emergency management particularly drought and flood encompassing mental health and trauma situations. Has been involved in community groups often holding executive positions.
Committees: Marketing
Interest in Shares: 1000

Directors' report (continued)

Principal Activities

The principal activities of the company during the financial year were facilitating **Community Bank®** services under management rights to operate franchised branches of Bendigo and Adelaide Bank Limited.

There has been no significant changes in the nature of these activities during the year.

Operating results

Operations have continued to perform in line with expectations. The profit/(loss) of the company for the financial year after provision for income tax was:

Year ended 30 June 2014 $	Year ended 30 June 2013 $
13,869	(87,255)

Remuneration report

Directors' remuneration

For the year ended 30 June 2014 the directors received total remuneration, as follows:

	$
Louise Frances Ross	8,333
Corinne Gaye Holmberg	8,000
Graeme Trevor Wood	1,200
Kathryn Carmel Taylor	1,200
Sandra Margaret Peacock	1,200
Christopher Bernard Dalton	1,200
Bradley Adrian Drust (Appointed 7 April 2014)	300
Amanda Irene Logie (Appointed 24 October 2013)	823
Robert Michael West (Resigned 5 May 2014)	900
Helen Dianne O'Sullivan (Resigned 24 October 2013)	2,000
Christopher Thomas Giffin (Retired 24 October 2013)	-
Mathew John Dennis(Retired 24 October 2013)	-
	25,156

Remuneration report (continued)

Directors' shareholdings

	Balance at start of the year	Changes during the year	Balance at end of the year
Louise Frances Ross	1,876	-	1,876
Corinne Gaye Holmberg	3,751	-	3,751
Graeme Trevor Wood	626	-	626
Kathryn Carmel Taylor	1,000	-	1,000
Sandra Margaret Peacock	10,000	-	10,000
Christopher Bernard Dalton	-	-	-
Amanda Irene Logie (Appointed 24 October 2013)	2,000	-	2,000
Bradley Adrian Drust (Appointed 7 April 2014)	-	-	-
Robert Michael West (Resigned 5 May 2014)	-	-	-
Helen Dianne O'Sullivan (Resigned 24 October 2013)	6,251	-	6,251
Christopher Thomas Giffin (Retired 24 October 2013)	1,250	-	1,250
Mathew John Dennis (Retired 24 October 2013)	1,000	-	1,000

Dividends

No dividend was declared or paid during the year ended 30 June 2014. In the previous year ended 30 June 2013 a fully franked 5 cent dividend was declared and paid.

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Events since the end of the financial year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company the results of those operations or the state of affairs of the company, in future years.

Likely developments

The company will continue its policy of facilitating banking services to the community.

Environmental regulation

The company is not subject to any significant environmental regulation.

Indemnification and insurance of directors and officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Indemnification and insurance of directors and officers (continued)

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

Directors' meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Board Meetings Attended		Committee Meetings Attended					
			Finance/Audit		Marketing		Human Resources	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Louise Frances Ross	11	8	-	-	8	5	2	2
Corinne Gaye Holmberg	11	11	1	1	8	7	-	-
Graeme Trevor Wood	11	11	-	-	8	7	-	-
Kathryn Carmel Taylor	11	8	-	-	8	6	2	2
Sandra Margaret Peacock	11	11	-	-	8	8	2	2
Christopher Bernard Dalton	11	10	1	1	-	-	-	-
Amanda Irene Logie (Appointed 24 October 2013)	7	6	-	-	-	-	-	-
Bradley Adrian Drust (Appointed 7 April 2014)	3	3	1	1	-	-	-	-
Robert Michael West (Resigned 5 May 2014)	8	2	-	-	-	-	-	-
Helen Dianne O'Sullivan (Resigned 24 October 2013)	4	3	-	-	-	-	-	-
Christopher Thomas Giffin (Retired 24 October 2013)	4	3	-	-	-	-	-	-
Mathew John Dennis (Retired 24 October 2013)	4	1	-	-	-	-	-	-

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non audit services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

Non audit services (continued)

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact on the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

Signed in accordance with a resolution of the board of directors at Elmore, Victoria on 21 August 2014.

Louise Frances Ross, Chairman

Auditor's independence declaration

Partners in success
Chartered Accountants

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Lockmore Financial Services Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review
- any applicable code of professional conduct in relation to the review.

David Hutchings
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 21 August 2014

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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Financial statements

Statement of Comprehensive Income for the year ended 30 June 2014

	Note	2014 $	2013 $
Revenue from ordinary activities	4	1,241,914	1,177,869
Employee benefits expense		(714,565)	(715,341)
Charitable donations, sponsorship, advertising and promotion		(135,942)	(185,383)
Occupancy and associated costs		(63,634)	(66,276)
Systems costs		(68,668)	(68,826)
Depreciation and amortisation expense	5	(75,628)	(75,327)
Finance costs	5	-	(982)
General administration expenses		(166,665)	(186,527)
Profit/(loss) before income tax (expense)/credit		**16,812**	**(120,793)**
Income tax (expense)/credit	6	(2,943)	33,538
Profit/(loss) after income tax (expense)/credit		**13,869**	**(87,255)**
Total comprehensive income for the year		**13,869**	**(87,255)**
Earnings per share for profit/(loss) attributable to the ordinary shareholders of the company:		**¢**	**¢**
Basic earnings per share	21	0.87	(5.49)

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2014

	Note	2014 $	2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	556,315	493,433
Trade and other receivables	8	92,259	88,963
Current tax asset	11	492	4,000
Total Current Assets		**649,066**	**586,396**
Non-Current Assets			
Property, plant and equipment	9	286,591	290,180
Intangible assets	10	56,917	92,837
Deferred tax assets	11	43,617	46,560
Total Non-Current Assets		**387,125**	**429,577**
Total Assets		**1,036,191**	**1,015,973**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	30,583	29,568
Borrowings	13	2,083	1,822
Provisions	14	47,791	46,504
Total Current Liabilities		**80,457**	**77,894**
Non-Current Liabilities			
Borrowings	13	3,472	5,545
Provisions	14	16,044	10,185
Total Non-Current Liabilities		**19,516**	**15,730**
Total Liabilities		**99,973**	**93,624**
Net Assets		**936,218**	**922,349**
Equity			
Issued capital	15	1,344,664	1,344,664
Accumulated losses	16	(408,446)	(422,315)
Total Equity		**936,218**	**922,349**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the year ended 30 June 2014

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2012	**1,344,664**	**(255,599)**	**1,089,065**
Total comprehensive income for the year	**-**	**(87,255)**	**(87,255)**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(79,461)	(79,461)
Balance at 30 June 2013	**1,344,664**	**(422,315)**	**922,349**
Balance at 1 July 2013	**1,344,664**	**(422,315)**	**922,349**
Total comprehensive income for the year	**-**	**13,869**	**13,869**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2014	**1,344,664**	**(408,446)**	**936,218**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Receipts from customers		1,345,835	1,268,595
Payments to suppliers and employees		(1,264,086)	(1,326,109)
Interest received		16,199	18,639
Interest paid		-	(982)
Income taxes paid		3,508	19,794
Net cash provided by/(used in) operating activities	**17**	**101,456**	**(20,063)**
Cash flows from investing activities			
Payments for property, plant and equipment		(36,762)	(23,825)
Net cash used in investing activities		**(36,762)**	**(23,825)**
Cash flows from financing activities			
Proceeds from borrowings		-	8,734
Repayment of borrowings		(1,812)	(16,466)
Dividends paid		-	(79,461)
Net cash used in financing activities		**(1,812)**	**(87,193)**
Net increase/(decrease) in cash held		**62,882**	**(131,081)**
Cash and cash equivalents at the beginning of the financial year		493,433	624,514
Cash and cash equivalents at the end of the financial year	**7(a)**	**556,315**	**493,433**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2014

Note 1. Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

Where required by Australian Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Adoption of new and amended accounting standards

The company adopted the following standards and amendments, mandatory for the first time for the annual reporting period commencing 1 July 2013:

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements.
- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.
- AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039.
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Adoption of new and amended accounting standards (continued)

- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

AASB 2011-4 removes the individual key management personnel disclosure requirements in AASB 124 Related Party Disclosures. As a result the company now only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. Detailed key management personnel compensation is outlined in the remuneration report, included as part of the directors' report.

The adoption of revised standard AASB 119 has resulted in a change to the accounting for the company's annual leave obligations. As the entity does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are now classified as long-term employee benefits in their entirety. This changes the measurement of these obligations, as the entire obligation is now measured on a discounted basis and no longer split into a short-term and a long-term portion. However, the impact of this change is considered immaterial on the financial statements overall as the majority of the annual leave is still expected to be taken within 12 months after the end of the reporting period.

None of the remaining new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2013.

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**® branches at Elmore, Lockington and Rochester, Victoria

The branches operate as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank**® branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**® branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branches franchise operations. It also continues to provide ongoing management and operational support and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branches
- training for the branch manager and other employees in banking, management systems and interface protocol
- methods and procedures for the sale of products and provision of services
- security and cash logistic controls
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as “day to day” banking business (i.e. ‘margin business’). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (i.e. ‘commission business’). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 and February 2013 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank®** partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank®** companies remain balanced.

The third source of revenue is a proportion of the fees and charges (i.e. what are commonly referred to as ‘bank fees and charges’) charged to customers. This proportion, determined by Bendigo and Adelaide Bank Limited, may vary between products and services and may be amended by Bendigo and Adelaide Bank Limited from time to time.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the company entity intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Employee entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

e) Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Note 1. Summary of significant accounting policies (continued)

f) Trade receivables and payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

g) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years
- furniture and fittings	4 - 40	years

h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

i) Payment terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

j) Borrowings

All loans are initially measured at the principal amount. Interest is recognised as an expense as it accrues.

k) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Classification and subsequent measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in the Statement of Comprehensive Income. Available-for-sale financial assets are included in non-current assets except where that are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Note 1. Summary of significant accounting policies (continued)

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions of other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

n) Contributed equity

Ordinary shares are recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

o) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Note 2. Financial risk management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

Note 2. Financial risk management (continued)

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit:

The distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2014 can be seen in the statement of comprehensive income.

There were no changes in the company's approach to capital management during the year.

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Note 3. Critical accounting estimates and judgements (continued)

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty. There is therefore a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the statement of comprehensive income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Note 3. Critical accounting estimates and judgements (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

	2014 $	2013 $

Note 4. Revenue from ordinary activities

	2014 $	2013 $
Operating activities:		
- services commissions	1,218,562	1,149,697
- other revenue	7,267	7,992
Total revenue from operating activities	**1,225,829**	**1,157,689**
Non-operating activities:		
- interest received	16,085	20,180
Total revenue from non-operating activities	**16,085**	**20,180**
Total revenues from ordinary activities	**1,241,914**	**1,177,869**

Note 5. Expenses

	2014 $	2013 $
Depreciation of non-current assets:		
- plant and equipment	18,037	19,029
- leasehold improvements	21,671	20,378
Amortisation of non-current assets:		
- franchise agreement	5,320	5,320
- franchise renewal fee	16,600	16,600
- establishment fee	14,000	14,000
	75,628	**75,327**
Finance costs:		
- interest paid	-	982
Loss on disposal of non-current asset	**643**	**-**
Bad debts	**426**	**94**

	Note	2014 $	2013 $

Note 6. Income tax expense/credit

	Note	2014 $	2013 $
The components of tax expense comprise:			
- Current tax			
- Future income tax benefit attributable to losses		-	(30,652)
- Movement in deferred tax		(2,609)	(2,886)
- Recoupment of prior year tax losses		5,552	-
		2,943	**(33,538)**
The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit/(loss)		16,812	(120,793)
Prima facie tax on profit/(loss) from ordinary activities at 30%		5,044	(36,238)
Add tax effect of:			
- non-deductible expenses		-	4,800
- timing difference expenses		2,609	2,887
- other deductible expenses		(2,101)	(2,101)
		5,552	**(30,652)**
Movement in deferred tax	11	(2,609)	(2,886)
		2,943	**(33,538)**

Note 7. Cash and cash equivalents

	Note	2014 $	2013 $
Cash at bank and on hand		256,315	193,433
Term deposits		300,000	300,000
		556,315	**493,433**

Note 7.(a) Reconciliation to cash flow statement

	Note	2014 $	2013 $
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:			
Cash at bank and on hand		256,315	193,433
Term deposits		300,000	300,000
		556,315	**493,433**

Note 8. Trade and other receivables

	2014 $	2013 $
Trade receivables	83,102	79,705
Other receivables and accruals	9,157	9,258
	92,259	**88,963**

Note 9. Property, plant and equipment

	2014 $	2013 $
Plant and equipment		
At cost	124,283	120,784
Less accumulated depreciation	(87,193)	(74,731)
	37,090	**46,053**
Leasehold improvements		
At cost	310,253	310,253
Less accumulated depreciation	(101,986)	(80,315)
	208,267	**229,938**
Motor vehicle		
At cost	44,581	39,477
Less accumulated depreciation	(3,347)	(25,288)
	41,234	**14,189**
Total written down amount	**286,591**	**290,180**
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	46,053	46,840
Additions	3,501	10,418
Disposals	-	-
Less: depreciation expense	(12,464)	(11,205)
Carrying amount at end	**37,090**	**46,053**
Leasehold improvements		
Carrying amount at beginning	229,938	237,864
Additions	-	13,407
Disposals	-	-
Less: depreciation expense	(21,671)	(21,333)
Carrying amount at end	**208,267**	**229,938**

	2014 $	2013 $

Note 9. Property, plant and equipment (continued)

Motor vehicle		
Carrying amount at beginning	14,189	18,919
Additions	33,261	-
Disposals	(643)	-
Less: depreciation expense	(5,573)	(4,730)
Carrying amount at end	**41,234**	**14,189**
Total written down amount	**286,591**	**290,180**

Note 10. Intangible assets

Franchise fee		
At cost	86,600	86,600
Less: accumulated amortisation	(80,876)	(75,556)
	5,724	**11,044**
Renewal processing fee		
At cost	83,000	83,000
Less: accumulated amortisation	(76,887)	(60,287)
	6,113	**22,713**
Establishment fee (Rochester)		
At cost	70,000	70,000
Less: accumulated amortisation	(38,500)	(24,500)
	31,500	**45,500**
Agency costs - payout		
At cost	13,580	13,580
Total written down amount	**56,917**	**92,837**

Notes to the financial statements (continued)

	Note	2014 $	2013 $
Note 11. Tax			
Current:			
Income tax refundable		**492**	**4,000**
Non-Current:			
Deferred tax assets			
- accruals		590	159
- employee provisions		19,150	17,006
- tax losses carried forward		25,100	30,652
		44,840	**47,817**
Deferred tax liability			
- accruals		1,223	1,257
		1,223	**1,257**
Net deferred tax asset		**43,617**	**46,560**
Movement in deferred tax charged to statement of comprehensive income		**2,943**	**(33,538)**

Note 12. Trade and other payables

	Note	2014 $	2013 $
Trade creditors		26,168	26,589
Other creditors and accruals		4,415	2,979
		30,583	**29,568**

Note 13. Borrowings

	Note	2014 $	2013 $
Current:			
Bank overdrafts			
Lease liability	18	2,083	1,822
		2,083	**1,822**
Non-Current:			
Lease liability	18	3,472	5,545
		3,472	**5,545**

The chattel mortgage on the motor vehicle has been paid out on 10 December 2012. A new photocopier lease has been taken out in December 2012. Interest is charged at 14% and the final instalment is due in November 2016.

	2014 $	2013 $

Note 14. Provisions

	2014 $	2013 $
Current:		
Provision for annual leave	29,762	27,702
Provision for long service leave	18,029	18,802
	47,791	**46,504**
Non-Current:		
Provision for long service leave	**16,044**	**10,185**

Note 15. Contributed equity

	2014 $	2013 $
1,589,227 ordinary shares fully paid (2013: 1,589,227)	1,409,233	1,409,233
Less: equity raising expenses (Elmore/Lockington)	(29,553)	(29,553)
Less: equity raising expenses (Rochester)	(35,016)	(35,016)
	1,344,664	**1,344,664**

Rights attached to shares

(a) Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** branches have the same ability to influence the operation of the company.

(b) Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) Transfer

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the Corporations Act 2001.

Note 15. Contributed equity (continued)

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 694. As at the date of this report, the company had 777 shareholders.

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The board has the power to request information from a person who has (or is suspected by the board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

	2014 $	**2013 $**
Note 16. Accumulated losses		
Balance at the beginning of the financial year	(422,315)	(255,599)
Net profit/(loss) from ordinary activities after income tax	13,869	(87,255)
Dividends paid or provided for	-	(79,461)
Balance at the end of the financial year	**(408,446)**	**(422,315)**

Note 17. Statement of cash flows

	2014 $	2013 $
Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by/(used in) operating activities		
Profit/(Loss) from ordinary activities after income tax	13,869	(87,255)
Non cash items:		
- depreciation	39,708	39,407
- amortisation	35,920	35,920
- (profit)/loss on disposal of fixed asset	643	(2,139)
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(3,296)	1,708
- (increase)/decrease in other assets	2,943	(2,886)
- increase in payables	1,015	361
- increase in provisions	7,146	12,636
- increase/(decrease) in current tax liabilities	3,508	(17,815)
Net cash flows provided by/(used in) operating activities	**101,456**	**(20,063)**

Note 18. Leases

	2014 $	2013 $
Finance lease commitments		
Payable - minimum lease payments:		
- not later than 12 months	2,708	2,708
- between 12 months and 5 years	3,836	6,533
Minimum lease payments	**6,544**	**9,241**
Less future finance charges	(989)	(1,874)
Present value of minimum lease payments	**5,555**	**7,367**

The finance lease is of a photocopier. Commencing in December 2012, it is a four year lease. Interest is charges at 14%.

Operating lease commitments

	2014 $	2013 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	39,379	18,027
- between 12 months and 5 years	161,167	-
- greater than 5 years	18,939	-
	219,485	**18,027**

Note 18. Leases (continued)

The Elmore Branch lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. It is in the last option period. The rent is reviewed annually with increases in line with CPI.

The Lockington Branch lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. It is in the last option period. The rent is reviewed annually with increases in line with CPI.

The Rochester Branch lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. The lease has two further 5 year term options left on the lease. The rent is reviewed annually with increases in line with CPI and on market value at each renewal date (3 December 2018).

	2014 $	**2013 $**

Note 19. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:

	2014 $	2013 $
- audit and review services	3,850	3,850
- share registry services	1,500	4,080
- non audit services	4,129	4,412
	9,479	**12,342**

Note 20. Dividends paid or provided

	2014 $	2013 $
a. Dividends paid during the year		
Current year interim dividend		
Fully franked dividend - Nil cents (2013: 5 cents) per share	-	79,461
The tax rate at which dividends have been franked is 30% (2013: 30%).		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	6,468	9,976
- franking credits that will arise from payment of income tax payable as at the end of the financial year	(492)	(4,000)
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	
Franking credits available for future financial reporting periods:	5,976	5,976
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	**5,976**	**5,976**

Notes to the financial statements (continued)

Note 21. Earnings per share

		2014 $	2013 $
(a)	Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating earnings per share	13,869	(87,255)
		Number	**Number**
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,589,227	1,589,227

Note 22. Events occurring after the reporting date

There have been no events after the end of the financial year that would materially affect the financial statements.

Note 23. Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets at the date of this report to affect the financial statements.

Note 24. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank**® services in Elmore, Lockington and Rochester, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 25. Registered office/Principal place of business

The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office	Principal Place of Business
62 Railway Place Elmore Vic 3558	62 Railway Place Elmore Vic 3558
	9-11 Lockington Road Lockington Vic 3563
	24 Gillies Street Rochester Vic 3561

Note 26. Financial instruments

Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for all financial instruments, as well as the settlement period for instruments with a fixed period of maturity and interest rate.

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 %	2013 %
Financial assets												
Cash and cash equivalents	256,315	193,433	300,000	300,000	-	-	-	-	-	-	3.16	3.86
Receivables	-	-	-	-	-	-	-	-	92,259	88,963	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	5,555	7,367	-	-	-	-	-	-	0.00	9.60
Payables	-	-	-	-	-	-	-	-	30,583	29,568	N/A	N/A

Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The company does not have any unrecognised financial instruments at the year end.

Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the interest bearing financial assets and liabilities in place subject to variable interest rates, as outlined above.

Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

As at 30 June 2014, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

Note 26. Financial instruments (continued)

Sensitivity Analysis (continued)

	2014 $	2013 $
Change in profit/(loss)		
Increase in interest rate by 1%	2,563	1,934
Decrease in interest rate by 1%	2,563	1,934
Change in equity		
Increase in interest rate by 1%	2,563	1,934
Decrease in interest rate by 1%	2,563	1,934

Directors' declaration

In accordance with a resolution of the directors of Lockmore Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

   (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

Louise Frances Ross, Chairman

Signed on the 21st of August 2014.

Independent audit report

Partners in success

Chartered Accountants

Independent auditor's report to the members of Lockmore Financial Services Limited

Report on the financial report

I have audited the accompanying financial report of Lockmore Financial Services Limited, which comprises the balance sheet as at 30 June 2014, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. I conducted the audit in accordance with Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, I consider internal controls relevant to the entity's preparation and presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The audit did not involve an analysis of the prudence of business decisions made by directors or management.

I performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with my understanding of the company's financial position and of its performance.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Independence

In conducting the audit I have complied with the independence requirements of the *Corporations Act 2001*. I have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

Auditor's opinion on the financial report

In my opinion:

1. The financial report of Lockmore Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2014 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

I have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. My responsibility is to express an opinion on the remuneration report, based on the audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In my opinion, the remuneration report of Lockmore Financial Services Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 21 August 2014

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Rochester **Community Bank**® Branch
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